

C O N F I D E N T I A L SECTION 01 OF 02 DAMASCUS 006015

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SUBJECT: SARG ATTRACTS NEW INVESTMENT IN ITS OIL AND GAS SECTORS

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Classified By: CDA: Stephen Seche for Reasons 1.5 b/d

11. (C) Summary. Last week, the SARG opened for bidding, nine new blocks for oil and gas exploration. Though interest has been high, most industry contacts discount the majority of potential bidders as speculators attracted by the current high selling price of oil. Multinational companies already present in Syria are halfheartedly pursuing bids to gauge the extent to which the SARG is willing to go to attract new investment, while continuing to watch carefully how Syria's current standoff with the international community plays out. All non-US companies want to keep their hats in the ring in order to be positioned for when the SARG eventually offers areas of greater interest and potential. Any significant new development in the sector will await a change in SARG policy, which currently reserves for its state-owned company all areas of greatest potential. End summary.

12. (U) On November 7 and 8, the SARG offered nine new blocks for oil and gas exploration (reftel). Approximately 30 international companies participated in a two-day symposium that was conducted by Dubai-based, IBC Gulf Conferences, under the sponsorship of the Syrian Ministry of Petroleum. Most of the participating companies were minors from areas as diverse as China, the Gulf, Russia, and Europe. Three companies: Gulf Sands Petroleum, IPR Mediterranean Exploration, and Midway International were referred to during the symposium as US companies, though all describe themselves as Europe-based. The largest companies participating were Royal Dutch Shell, Total, and PetroCanada.

13. (U) Dr. Ibrahim Haddad, Minister of Oil and Mineral Resources, set the tone for the symposium by opening with remarks that focused on the injustice of Israel's continued occupation of the Golan Heights and a protracted condemnation of the Mehlis investigation. Haddad described the investigation as a direct assault by the international community on Syria's &national dignity and respect.<sup>8</sup> Haddad went on to comment that Syria has a long history of political and social stability that makes it an attractive venue for business. He ended his speech by assuring the audience that the SARG would be implementing meaningful economic reforms and invited the attending companies to invest in Syria.

14. (SBU) Haddad was followed by Ahmad Mualla, director general of the state-owned Syrian Petroleum Company (SPC), who restricted his remarks to the oil and gas sector and the potential of the nine new blocks for oil and gas exploration and production. According to Mualla, current oil production in Syria stands at 425,000 bp/d, which he broke down as 193,000 bp/d by SPC, 180,000 bp/d from Al Furat Petroleum Company (AFPC - a joint venture between SPC, Shell, and PetroCanada), 35,000 bp/d from Total's joint venture with SPC (DEZPC), 17,000 bp/d of gas condensates by a joint-venture between Conoco-Phillips, Total, and the Syrian Gas Company. (Note. Mualla's production numbers differ slightly from our own which put total current production at 415,000bp/d and dropping. End note.) Mualla commented that SPC had concluded new production sharing contracts (PSC) with seven companies in the last three years and plans to conclude two more before the end of the year. Mualla specified December 20 as the closing date for bids and promised a SARG decision by early in the new year.

15. (C) The level of interest in the nine new blocks seems inversely proportional to the size of the company. The two majors, Shell and Total, are lukewarm at best. Managers from both commented to us that their companies have profited from their presence in Syria and are interested in remaining in the country, but need to identify new opportunities to maintain their presence as production is declining in their respective areas. Both doubt that the new blocks offered by the SARG represent the type of business opportunity that they are looking for. Shell is slightly more positive about the chances the company will submit a bid, but the political situation concerns both greatly. Campbell Keir, general manager for Shell, said his company is contemplating a bid on

two blocks that border Iraq but commented to us that the geology of the area is complex and rated any successful bidder's chances of finding a recoverable resource in the area at no more than ten percent. If Shell did succeed, however, Campbell estimated the returns to be potentially significant given the amount of oil Shell geologists believe to be in the area.

16. (C) Total is even less likely to participate in this round of bidding. Total's managing director, Hatem Nuseibeh told us that the prospects are too small and the competition from minors is too great for Total to be seriously interested in participating. Nuseibeh commented that Total, like Shell, is committed to remaining in Syria but the company has its eyes on bigger fish. Total geologists estimate that Syria had 20 billion barrels of oil reserves of which four billion have already been extracted. Nuseibeh estimates that less than one billion of what remains is in areas currently open to international companies. The remaining reserves are under SPC control. Gaining access to these reserves is Total's long-term objective.

17. (C) PetroCanada managers are more sanguine and affirm to us that they plan to submit at least one bid if the political situation does not deteriorate further before bids are due. Representatives from smaller, less-known companies are more aggressively pursuing the opportunities offered by the SARG. The business plans of most do not go beyond identifying an oil-bearing structure with some promise that could then be sold to a larger company with more resources. Some of the companies involved in the symposium have no prior experience in the oil and gas sectors. Midway, referred to in the symposium as a US company, has no resident representative and is actually owned by a Dubai-based, real estate company - Tiger Group - in which Rami Makhlof, President Asad's first cousin, has a controlling interest.

18. (C) Comment. Though Syria has significant untapped oil reserves, our industry contacts are unanimous in complaining that the state-owned SPC controls the lion's share. All equally agree that exploiting those reserves is beyond SPC's institutional capabilities. Until the SARG decides to restructure the sector and open up SPC's areas to joint-ventures with majors, like it currently has in other areas with Shell and Total, the sector will not reverse its current downward slide. As reported in reftel, there are areas currently under exploration that could bring new oil production on-line within three years but that will only slow an otherwise precipitous decline in the country's oil exports.

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